

**Tamil Nadu Newsprint**

₹ 121

**Environmental Paperwork****Accumulate**

Jan 03, 2014

**Company Background**

Tamil Nadu Newsprint & Papers Limited (TNPL) was established by the Government of Tamil Nadu during early eighties to produce Newsprint and Printing & Writing Paper using bagasse, a sugarcane residue, as primary raw material. It commenced production in the year 1984 with an initial capacity of 90,000 tn per annum (tpa). Over the years, production capacity has been increased to 4,00,000 tpa & TNPL has emerged as the largest bagasse based Paper Mill in the world consuming about 1 mn tonnes of bagasse every year. TNPL exports about 1/5th of its production to more than 50 countries. Manufacturing of quality paper for the past two and half decades from bagasse is an index of the company's technological competence. A strong record in adopting minimum impact best process technology, responsible waste management, reduced pollution load and commitment to the corporate social responsibility make the company one of the most environmentally compliant paper mills in the world.

**Key Highlights**

- ➔ TNPL has engaged OMYA, Switzerland to install a 200 tpd PCC Plant and a 120 tpd WGCC Plant on BOO basis (near the cement plant) to source the materials at a lower cost. The WGCC plant has become operational and the PCC Plant will be operational from Q1 2014.
- ➔ TNPL is all set to setup a Multilayer Coated Board Plant of capacity 2,00,000 mtpa in Trichy district. The plant is expected to commission by March 2016. The plant is expected to produce speciality boards such as whiteline chip board, folding box board, solid bleached sulphate board and cupstock.
- ➔ Over the last year TNPL has started taking up steps to improve its dealer network in all 4 regions of the country to further improve its sales.
- ➔ TNPL has recently commissioned an Indian trendsetter DIP line which will give tremendous flexibility in managing the raw material supply chain to meet the annual production targets of high quality printing and writing paper from recycled paper. Further the DIP line represents the green technology as it is the least polluting when compared other fiber pulp lines prevalent in India. The DIP line will be an enabler for future growth of the company.

**Key Financials**

Year Ended 31 <sup>st</sup>	Mar 11	Mar 12	Mar 13
Revenue (INR mn)	12,921.9	17,447.0	20,554.5
Rev. growth (%)	15.53	35.02	17.81
EBITDA (INR mn)	3,611.8	4,475.3	4,338.2
Net profit (INR mn)	1,490.0	1,089.4	914.8
Shares outstanding (mn)	69.2	69.2	69.2
EPS (INR)	21.5	15.7	13.2
EPS growth (%)	18.20	(26.89)	(16.03)
P/E (x)	6.1	6.1	7.2
RONW (%)	13.8	(0.4)	9.1
ROCE (%)	5.2	(0.1)	3.5

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**Info Codes**

Reuters	: TNNP.BO
Bloomberg	: TNNP@IN
NSE	: TNPL
BSE	: 531426

**Market Data**

52 Wk Range (₹)	: 129 / 85
Shares in Issue (mn)	: 69.2
Mkt. Cap (₹ bn)	: 8.47
BSE 2 Wk Avg Vol	: 19000

**Share Holding Pattern (%)**

Promoters	: 35.32
DII's	: 33.96
FII's	: 7.64
Others	: 25.48

**Investment Theme**

TNPL exports ~20% of its production to 50+ countries. Manufacturing quality paper for past ~3 decades from bagasse is an index of technological competence. A strong record in adopting low impact best process technology, responsible waste management, reduced pollution load and commitment to the corporate social responsibility make it a most environmentally compliant paper mills in the world. TNPL has signed a MoU with Switzerland based Omya International AG, for setting up on-site precipitated calcium carbonate plant in its premises. The plant would have a production capacity of 60,000 units of PCC. TNPL is also all set to setup a Multilayer Coated Board Plant of capacity 2,00,000 mtpa. The plant is expected to commission by March 2016. This will help the company cater to the speciality paper segment which will help boosting revenues..

**Coming next is Something Special**

## Financial Statements

### Income Statement

(₹ mn)

Year end	Mar 11	Mar 12	% Chg	Mar 13	% Chg
Total Sales + Excise	12724.6	16692.5	31.18	21120.2	26.53
Other Income	506.7	1273.8	151.39	192.2	(84.91)
Change in Stocks	(40.7)	540.1	(1427.03)	(131.1)	(124.27)
Raw Material Con.	2808.1	4247.4	51.26	5215.2	22.79
Employee Exp.	1119.3	1253.4	11.98	1378.2	9.96
Indirect Taxes	352.3	559.6	58.84	803.8	43.64
Other Exp.	5308.6	7983.1	50.38	9472.0	18.65
Operating Exp.	9629.0	13503.4	40.24	17000.3	25.90
Operating Profit	3095.6	3189.1	3.02	4119.9	29.19
Total Interest	442.6	1412.7	219.18	1321.7	(6.44)
Gross Profit	3159.7	3050.2	(3.47)	2990.4	(1.96)
Net Dep.	1221.6	1675.5	37.16	1725.6	2.99
Total Taxation	448.1	285.3	(36.33)	350.0	22.68
Net Profit/Loss	1490.0	1089.4	(26.89)	914.8	(16.03)

### 4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 <sup>st</sup>	Mar 10	Mar 11	Mar 12	Mar 13
<b>SOURCES OF FUNDS</b>	<b>21,674.2</b>	<b>24,039.1</b>	<b>27,044.7</b>	<b>25,356.8</b>
Equity Share capital	693.8	693.8	693.8	693.8
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	7,351.2	8,464.2	9,013.0	9,660.9
Long Term Loans	10,055.9	12,426.2	13,476.5	11,771.0
Short Term Loans	3,573.3	2,454.9	3,861.4	3,231.1
<b>USES OF FUNDS</b>	<b>21,674.2</b>	<b>24,039.1</b>	<b>27,044.7</b>	<b>25,356.8</b>
Gross Block	22,987.8	33,644.6	35,168.9	35,977.0
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	10,546.8	11,705.5	13,389.6	15,138.4
Net Block	12,441.0	21,939.1	21,779.3	20,838.6
Capital Work in Progress	8,525.0	1,127.1	3,268.0	4,783.5
Investments	114.0	11.4	11.4	11.4
Current Assets	6,270.1	7,957.3	10,813.0	9,556.1
Less : Current Liabilities	5,675.9	6,995.8	8,827.0	9,832.8
Total Net Current Assets	594.2	961.5	1,986.0	(276.7)
Misc. Expenses not written	0.0	0.0	0.0	0.0
<b>NOTE</b>				
Bk Val Unquoted Investments	0.0	0.0	0.0	0.0
Mkt Val. Quoted Investments	119.0	20.3	14.9	11.5
Contingent Liabilities	3,562.7	3,825.8	4,609.3	5,245.1
Dividend (%)	45	50	50	50

**Quarterly Income Sheets**

(₹ mn)

Quarter Ended	Dec 12	Mar 13	Jun 13	Sep 13
Net Sales	4,723.20	5,787.30	5,118.00	5,404.20
Cost Of Sales	3,780.60	4,600.10	3,988.60	4,070.30
Operating Profit	942.60	1,187.20	1,129.40	1,333.90
Recurring Income	23.00	138.10	24.10	38.30
Adjusted PBDIT	965.60	1,325.30	1,153.50	1,372.20
Financial Expenses	309.20	288.50	269.50	312.60
Depreciation	439.00	447.70	457.50	498.40
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	217.40	589.10	426.50	561.20
Tax Charges	38.30	177.90	104.70	121.30
Adjusted PAT	179.10	411.20	321.80	439.90
Non Recurring Items	0.00	0.00	0.00	0.00
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	179.10	411.20	321.80	439.90

**52 Week Index Relative Percentage Appreciation**

**Major Events in 2013**

1. The 600 tpd cement plant installed under the Lime Sludge and Fly Ash Management Scheme commenced production in the first half of 2013. The cement is sold under the brand name TNPL Cement and is well received in the market. Significant revenues are expected once the initial marketing push is over.
2. The 300 tpd De-inking pulp plant commenced production in the second half of 2013. The de-inked pulp is used for manufacture of paper replacing high cost of imported pulp, the company is expected to reduce its foreign currency outgo from this.
2. The company received 136738 CER's (Certified Emission Reduction Certificates) on account of the use of power generated through the recovery boiler out of which 94678 CER's have been sold and the balance carried forward.

**Risks Associated**

Rise in minimum support price of wood can adversely affect the margins. TNPL's operating margin may shrink further if the deployment of de-inking facility gets delayed. Environmental issues related to sourcing of raw material, affluent discharge can seriously impact the company's business. Macroeconomic factors like slowdown in economy, reduction in advertising spend by corporates especially in print media can cast serious impact on the business of TNPL. Any shift in raw material to feed the paper mills towards imported pulp will negatively impact our margin assumptions.

**In a Nutshell**

TNPL is one of India's largest paper manufacturer's with one of the lowest cost structures. Considering the dynamics of the Indian Paper Industry, it has been executing a very strong strategy involving consistent growth in capacities, high focus on energy conservation, own plantations, efficient cost management & focus on high quality products. TNPL is an acknowledged leader in the technology of manufacture of paper from bagasse – the sugar cane residue. TNPL require bagasse & wood pulp in the ratio of 60 : 40 to produce 1 tonne of paper. Being bagasse based paper unit, TNPL's cost of producing paper is less compared to companies. TNPL continues to enjoy its relatively lower reliance on wood because of its vision to make paper primarily from bagasse (a sugarcane waste product) which is abundant and cheap, as compared to wood, which is scarce and expensive. By 2018 the company expects the farm forestry to supply 400,000 MT of hardwood annually. TNPL has signed a MoU with Switzerland based Omya International AG, for setting up on-site precipitated calcium carbonate plant of 60,000 units in its premises. TNPL is continuing its focus on uncoated paper, thereby being shielded from international finished product prices (excluding the copier portfolio). TNPL is latest player which augmented its capacity and today stand to be the second largest producer of un-coated Printing and Writing paper in the country. The current capacity stands at 400,000 MT and it is expected to increase further.

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**Rating Interpretation**

<b>Buy</b>	: Expected to appreciate 20% or more over 12-months	<b>Reduce</b>	: Expected to depreciate up to 10% over 12-months
<b>Accumulate</b>	: Expected to appreciate 10% to 20% over 12-months	<b>Sell</b>	: Expected to depreciate 10% or more over 12-months
<b>Trade Buy</b>	: Expected to appreciate more than 10% over 45-days	<b>Trade Sell</b>	: Expected to depreciate more than 10% over 45-days

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